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TAGS: [ECON](#) [EFIN](#) [PREL](#) [GR](#) [AMB](#)

SUBJECT: TOUR D'HORIZON WITH FINMIN ALOGOSKOUFIS: WE'RE COMMITTED TO REFORM

REF: A. ATHENS 2431

[1](#)B. ATHENS 1494

[1](#)1. (SBU) SUMMARY. In the wake of PM Karamanlis' Thessaloniki speech (reftel) Finance Minister Alogoskoufis detailed GOG economic reform efforts in a wide-ranging meeting with Ambassador on October 3. Stressing that Greece needed to change its international image from being "a country of ten million, but rather a gateway to a much broader region." Alogoskoufis highlighted the following points during the meeting:

- He had just submitted the 2006 draft budget, which kept Greece on the path to fiscal consolidation (2006 debt/GDP below 3%), and continued economic reforms;
- One-third of the reduction in the deficit was the result of debt securitization, a method of bringing debt collection revenues forward and one which EUROSTAT would hopefully approve, as it had done in the case of a similar plan by Portugal;
- In spite of the GOG's success in bringing down the deficit, growth in 2005 was on track to reach 3.6% as a result of a wise policy mix of tax reductions and investment incentives;
- The GOG would continue with its efforts to reform public enterprises through the introduction of international-level accounting standards, among other reforms. The GOG hoped to be able to privatize such enterprises at a later date;
- The GOG would move forward, albeit cautiously, with introducing "OTE-style" labor reforms in other public enterprises, meaning new workers would no longer enjoy lifetime employment privileges.

Alogoskoufis also spoke to the issue of the future of Olympic Airlines, a discussion to be reported septel.

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The Fiscal Picture: Greece Getting Its Act Together  
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[1](#)2. (SBU) Alogoskoufis noted the GOG had just submitted its draft 2006 budget to Parliament, as required by law, where it would be examined by the appropriate committees. It would be submitted in final form the third week of November. Alogoskoufis said the budget clearly illustrated the improving Greek fiscal situation. Debt/GDP was on track to fall from 6.6% in 2004 to 3.6% in 2005, and the GOG remained committed to bringing it below 3% in 2006. Alogoskoufis was particularly proud to have achieved this improvement while maintaining relatively strong growth of 3.6% in 2005 and having brought unemployment down to 10.4% from 11% the year before. Alogoskoufis credited the GOG's policy mix of reducing corporate taxes while introducing laws to improve the climate for private investment. These initiatives helped maintain growth rates and counterbalanced the GOG's reduction in public investment by 1.6 billion Euro (equal to 1% of GDP), which resulted from the end of spending on infrastructure for the Olympic games.

[1](#)3. (SBU) Alogoskoufis noted that approximately one-third of the fiscal consolidation will come from the securitization of almost two billion Euro in Greek debt in both 2005 and 2006. Essentially, the GOG had identified the highest-quality (and most easily collected) tax arrears debt owed the government, asked investment agencies such as Moody's to rate it, and planned to securitize it and sell it to interested investors. The income generated would be booked against the two budget years as revenues by EUROSTAT. Alogoskoufis noted that he expected this plan to win EUROSTAT approval, as Portugal had successfully implemented an almost identical plan in the past; Greece's debt, Alogoskoufis noted, was higher-quality than Portugal's.

[1](#)4. (SBU) Alogoskoufis noted his securitization plan gave Greece "more time" on the difficult issue of tax evasion, which continued to weigh on revenues. The Minister said he was pushing to use electronic means to strike at the worst tax evaders and had just finished implementing a system of cross-checking corporate revenues against purchases. An initial examination had found discrepancies in 2004 alone of approximately five billion Euro, of which approximately 50% was due the state (19% VAT plus up to 35% corporate income tax). The fact that almost 80% of the discrepancies that were found involved transactions worth more than 100,000 Euro

meant the State was in a good position to identify and punish the worst evaders.

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Reforming Public Enterprises  
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15. (SBU) Alogoskoufis emphasized the importance the GOG was giving to reforming and in some cases privatizing public enterprises such as the Postal Savings Bank, Public Power Corporation, and others. The GOG planned to introduce international accounting standards, improve corporate governance, and improve policy coordination. On the latter front, Alogoskoufis noted that coordination was now hobbled by the fact that, although the Ministry of Finance held the equity on behalf of the state, most public enterprises were in fact run on a day-to-day basis by other ministries closest to the subject matter of the enterprise in question. Alogoskoufis was working to create a new interministerial committee, on which all relevant ministries including Finance would sit, that would oversee these enterprises.

16. (SBU) The GoG is also committed to moving forward with additional labor market reforms, especially at state-owned enterprises where lifetime employment rights and generous pensions add to costs and make privatization difficult. Alogoskoufis recalled the government's coup earlier in the year at the state-owned telecommunications company OTE (Ref B). At that time, Minister of Labor Panayiotopoulos had been able to negotiate with OTE's principal union generous severance payments for a reduction in force as the price of the union's acquiescence that new employees will not receive state employee status and pensions. That package however enraged other unions and PASOK, which correctly saw the "OTE" model as threatening to all state-employee groups. PASOK subsequently engineered the removal of the OTE union leadership that had negotiated the deal (most unions are affiliated with a political party and the largest unions are in the PASOK camp). In the summer the government had had to resort to imposing OTE-like two-tiered compensation models on bank employees by legislative fiat. In his Thessaloniki Fair speech, the Prime Minister reiterated his intention of using the "OTE" model throughout the state sector. Alogoskoufis admitted it will not be easy however and will depend on politically painting PASOK and the unions as defenders of special privileges not available to ordinary Greeks.

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Improving the Investment Climate  
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17. (SBU) Alogoskoufis said he was committed to improving Greece as an investment destination. He underlined GOG efforts to combat Greece's much-maligned bureaucracy, noting that the lack of a national zoning plan had created an extraordinarily complex situation for potential investors, whose plans were frequently challenged by Greek courts. He believed the best way to approach the problem was to create specific zoning plans at the national level for different land uses, such as tourism and industry. Doing so avoided many of the current legal problems plaguing interested investors. He also stressed that the "one-stop investment shop," ELKE, would be moved to the Prime Minister's office, where it would receive high-level attention and command bureaucratic clout.